

FILED

JUN 21 2007

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION
INDIANA UTILITY
REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
THE BROWN COUNTY WATER)
UTILITY, INC. FOR APPROVAL OF A)
NEW SCHEDULE OF WATER RATE) CAUSE NO.43203
AND CHARGES AND TO INCUR)
FINANCING INDEBTEDNESS.)

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S

PREFILED SETTLEMENT TESTIMONY

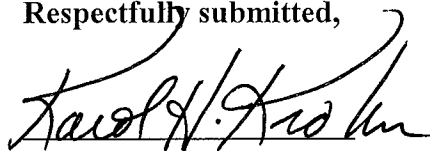
OF

HAROLD H. RICEMAN – PUBLIC'S EXHIBIT #4

EDWARD R. KAUFMAN – PUBLIC'S EXHIBIT #5

JUNE 21, 2007

Respectfully submitted,



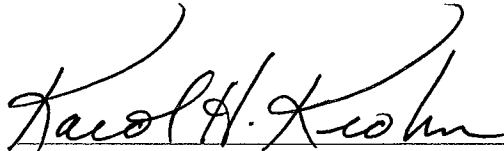
Karol H. Krohn
Assistant Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the **Indiana Office of Utility Consumer Counselor's Prefiled Settlement Testimony** has been served upon the following parties of record in the captioned proceeding by electronic mail or US mail on June 21, 2007.

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A handwritten signature in black ink, reading "Karol H. Krohn", written over a horizontal line.

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PUBLIC'S EXHIBIT NO. 4

Cause No. 43203

PREFILED SETTLEMENT TESTIMONY OF HAROLD H. RICEMAN

**FILED ON BEHALF OF THE INDIANA
OFFICE OF UTILITY CONSUMER COUNSELOR**

SETTLEMENT TESTIMONY OF HAROLD H. RICEMAN
CAUSE NO. 43203
BROWN COUNTY WATER UTILITY, INC.

I. Introduction

1 **Q:** Please state your name and business address.

2 **A:** My name is Harold H. Riceman and my business address is Indiana Government
3 Center North, 100 North Senate Avenue, Room N501, Indianapolis, IN 46204-
4 2215.

5 **Q:** By whom are you employed and in what capacity?

6 **A:** I am a Utility Analyst in the Water/Wastewater Division employed by the Indiana
7 Office of Utility Consumer Counselor (OUCC).

8 **Q:** Are you the same Harold Riceman who provided direct testimony in this
9 cause?

10 **A:** Yes.

11 **II. Purpose of Settlement Testimony**

12 **Q:** What is the purpose of the OUCC's Settlement Testimony in this case?

13 **A:** My testimony provides an overview of the settlement agreement reached in this
14 case and presents the agreed upon revenue requirements and the agreed
15 percentage rate increase, to be implemented in two steps under the proposed
16 settlement.

17 OUCC witness Edward R. Kaufman also prepared settlement testimony for this
18 case, discussing the compromise reached in settlement regarding the continued

1 funding of Petitioner's \$270,615 debt service revenue requirement for the State
2 Revolving Fund (SRF) loan previously approved in Cause No. 41712. OUCC
3 witness Mr. Kaufman explains the additional negotiated protections built into the
4 settlement agreement to protect consumers from over-paying debt service
5 requirements through rates on the SRF loan and on Petitioner's proposed Rural
6 Development loan.

7 Since Petitioner accepted all of the engineering or operating recommendations
8 proposed by OUCC witness Harold L. Rees, without any reservation or change,
9 the OUCC is not presenting any separate settlement testimony to support those
10 recommendations.

11 **Q: Are you sponsoring any accounting schedules in this settlement testimony?**

12 A: Yes. I have attached one schedule that shows the changes to revenue
13 requirements resulting from the OUCC and Petitioner's agreement to implement
14 an over-all 44.32% rate increase in two steps, rather than three – with a 23.68%
15 increase in the first step and a 16.68% increase in the second step. That schedule
16 is attached to this settlement testimony as OUCC Settlement Schedule 1.

17 **III. Support for Settlement Agreement**

18 **Q: Do the terms of the proposed settlement represent a fair and reasonable**
19 **resolution of all issues in this rate case?**

20 A: Yes, subject to approval by the Indiana Utility Regulatory Commission (IURC).
21 This testimony and the settlement testimony prepared by OUCC witness Mr.
22 Kaufman support the Parties' agreement as fair, reasonable, and in the public

1 interest. Under the agreement, the Petitioner accepted all of the OUCC's
2 accounting adjustments - except those specifically related to implementing the
3 agreed over-all 44.32% rate increase in three steps (as the OUCC originally
4 proposed), instead of in two steps (as the Parties agreed upon in settlement).

5 In settlement, Petitioner also agreed to meet additional project completion and
6 financing reporting requirements, true-up requirements for the proposed Rural
7 Development loan, and requirements restricting the use of any amounts Petitioner
8 over-collects through rates (after the date the IURC issues an order in this Cause)
9 for debt service on Petitioner's SRF loan until such time as the full principal
10 amount of the loan is drawn down to pay for capital improvement projects
11 authorized in Cause No. 41712.

12 **Q: Why is the OUCC willing to accept a two-increment rate increase?**

13 A: With additional agreed consumer protections (discussed more fully in OUCC
14 witness Mr. Kaufman's Settlement Testimony) and the additional information
15 Petitioner provided after the OUCC's original testimony was filed, the OUCC
16 agreed to allow continued funding of debt service for the SRF loan in the initial
17 rate increment. Even though the entire balance of the SRF loan will not be drawn
18 down immediately, Petitioner's revised project completion schedule shows that
19 Petitioner plans to draw down the remaining balance of the SRF loan within the
20 next eighteen (18) months, at which point the full debt service allowance will be
21 required for future loan payments. Since Petitioner will over-collect on debt
22 service until the full balance of the SRF loan is drawn down, Petitioner agreed in

1 settlement to use the amounts it over-collects in debt service for the SRF loan to
2 fund debt service reserve requirements on the new Rural Development loan
3 proposed in this case. Mr. Kaufman's settlement testimony discusses that
4 commitment in greater detail.

5 The OUCC's agreement not to remove the SRF debt service revenue requirement
6 from Petitioner's rates at this time, due to Petitioner's asserted obligation to make
7 payments on that loan during the next six to twelve months, changes the three-
8 increment rate increase the OUCC originally proposed into the agreed two-
9 increment rate increase.

10 The first increment involves a 23.68% across-the-board increase (part of which is
11 attributable to annual debt service on the SRF loan). The second increment
12 provides an additional 16.68% increase to cover debt service and debt service
13 reserve requirements on Petitioner's new Rural Development loan. The over-all
14 across-the-board rate increase after both rate increments are implemented is
15 44.32%, the same amount the OUCC recommended in its original prefiled
16 testimony.

17 **Q: Will the agreed two-step rate increase adequately protect Petitioner's**
18 **ratepayers?**

19 **A:** Petitioner originally asked to implement its full rate increase in a single step.
20 Aside from any over-collection related to the SRF loan (already discussed above),
21 if Petitioner's full rate increase were implemented in one step, the Petitioner
22 would also over-collect on debt service and related revenue requirements for the

1 new Rural Development loan – at least until Petitioner is ready to close on that
2 new debt. Since it might be a year or two before Petitioner is ready to close on
3 the Rural Development loan, if Petitioner were allowed to implement the full rate
4 increase in a single step, it would collect debt service through rates long before
5 any funds are borrowed and long before any loan payment obligations arise.

6 The proposed two-step rate increase prevents the Petitioner from collecting
7 revenue for debt service and related obligations on the Rural Development loan
8 until the loan closing is imminent and Petitioner files a true-up report to document
9 the additional amount it needs to start collecting through rates to meet new
10 payment obligations on that loan. The two-step rate increase is fairer to
11 ratepayers than the one-step increase the Petitioner proposed, since ratepayers will
12 not be required to pay for additional debt before the new debt is actually incurred.
13 (Debt-related timing issues are discussed further in the Settlement Testimony of
14 OUCC witness Mr. Kaufman.)

15 **Q: Will Petitioner's customers realize any direct benefits from the proposed**
16 **two-step implementation of the agreed 44.32% over-all rate increase?**

17 **A:** First, since Petitioner accepted the OUCC's accounting adjustments under the
18 proposed settlement, the 48.72% over-all rate increase Petitioner originally
19 proposed is reduced to 44.32%. Second, by using a two-step implementation
20 process, instead of immediately implementing the entire increase, Petitioner's
21 ratepayers will experience less rate shock. Instead of facing a single immediate
22 increase of 44.32%, Petitioner's rates will increase by 23.68% in the initial rate
23 increment, and by 16.68% when Petitioner is ready to proceed with the capital

1 improvement projects being funded through the new Rural Development loan.

2 **Q: Do you believe that the proposed settlement serves the public interest and**
3 **should be approved by the Commission?**

4 A: Yes. It provides the rate revenue Petitioner needs to meet current and future
5 revenue requirements - including funds needed to meet Petitioner's current and
6 future debt service, debt service reserve and debt coverage requirements. At the
7 same time, the proposed settlement protects Petitioner's customers from over-
8 paying on future debt-related obligations before they arise and from having to
9 adapt household budgets to cover an immediate 44.32% rate increase, when only
10 23.68% is initially required (with the remaining 16.68% increase not needed until
11 Petitioner is ready to close on the new Rural Development loan).

12 **Q: Do you recommend that the IURC approve the proposed settlement?**

13 A: Yes.

14 **Q: Does this conclude your settlement testimony?**

15 A: Yes.

BROWN COUNTY WATER UTILITY, INC.
CAUSE NUMBER 43203

***** SETTLEMENT SCHEDULES *****

**Comparison of Petitioner's and OUC's
Revenue Requirements**

	Per Petitioner	Per OUC			Sch Ref	OUC More (Less)
		Initial Rates & SRF	RD	Overall		
Operating Expenses	\$ 1,970,507	\$ 1,853,347	\$ 1,899,970	\$ 1,899,970	4	\$ (70,537)
Taxes other than Income	32,784	32,784	32,784	32,784	4	-
Amortization	11,306	11,306	11,306	11,306	3	-
Extensions and Replacements	370,176	354,132	354,132	354,132	7	(16,044)
Working Capital	17,646	21,302	22,468	22,468	8	4,822
Debt Service	1,053,852	666,377	1,038,716	1,038,716	9	(15,136)
Debt Service Reserve	34,530	-	34,530	34,530	10	-
Total Revenue Requirements	3,490,801	2,939,248	3,393,906	3,393,906		(96,895)
Less: Interest Income	36,372	36,372	36,372	36,372	3	-
Net Revenue Requirements	3,454,429	2,902,876	3,357,534	3,357,534		(96,895)
Less: Revenues at current rates subject to increase	(2,203,228)	(2,203,228)	(2,725,051)	(2,203,228)	4	-
Other revenues at current rates	(177,824)	(177,824)	(177,824)	(177,824)	4	-
Net Revenue Increase Required	\$ 1,073,377	\$ 521,823	\$ 454,658	\$ 976,481		\$ (96,895)
Recommended Percentage Increase	48.72%	23.68%	16.68%	44.32%		-4.40%

<u>Current Rate for 5,000 Gallons</u>	<u>Proposed</u>			<u>OUC</u> <u>More (Less)</u>
	<u>Petitioner</u>	<u>Initial Rates</u> <u>& SRF</u>	<u>RD</u>	
Current Rate = \$45.15	\$ 67.15	\$ 55.85	65.17	\$ (1.98)

BROWN COUNTY WATER UTILITY, INC.
CAUSE NUMBER 43203

***** SETTLEMENT SCHEDULES *****

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Proposed Rates

	Per Petitioner	Per OUCC			OUCC More (Less)
		Initial Rates & SRF	RD	Overall	
Operating Revenues					
Water Sales	\$ 14,338	\$ 14,338	\$ -	\$ 14,338	-
Facility Charges	(5,517)	(5,517)	-	(5,517)	-
Tap Fees	(77,308)	(77,308)	-	(77,308)	-
Other	(488)	(488)	-	(488)	-
Total Operating Revenues	<u>(68,975)</u>	<u>(68,975)</u>	<u>-</u>	<u>(68,975)</u>	<u>-</u>
O&M Expense					
Payroll Expense	17,088	17,088	-	17,088	-
Insurance - Health/Life	18,927	18,927	-	18,927	-
Purchased water - Jackson County	14,984	14,984	-	14,984	-
Purch Water-Indpls. Water	62,440	62,440	-	62,440	-
Insurance - Property/Liabilty	5,810	5,810	-	5,810	-
Heating	1,200	-	7,200	7,200	6,000
Purch Power New Facilities	11,440	-	11,440	11,440	-
Capital Expenditures	(16,891)	(74,803)	-	(74,803)	(57,912)
Maint Storage Facilities	37,275	49,528	8,000	57,528	20,253
Well cleaning	22,600	2,600	2,000	4,600	(18,000)
Pump maintenance	24,621	(2,189)	5,000	2,811	(21,810)
Media filter	8,000	-	12,500	12,500	4,500
IDEM regulatory fee	124	124	-	124	-
IURC fee	775	378	483	861	86
Holiday Party	-	(3,654)	-	(3,654)	(3,654)
				-	
Amortization Expense	-	-	-	-	-
Taxes Other than Income	(1,282)	(1,282)	-	(1,282)	-
Total Operating Expenses	<u>207,111</u>	<u>89,951</u>	<u>46,623</u>	<u>136,574</u>	<u>(70,537)</u>
Net Operating Income	<u>\$ (276,085)</u>	<u>\$ (158,925)</u>	<u>\$ (46,623)</u>	<u>\$ (205,548)</u>	<u>\$ 70,537</u>

PUBLIC'S EXHIBIT NO. 5

Cause No. 43203

PREFILED SETTLEMENT TESTIMONY OF EDWARD R. KAUFMAN

**FILED ON BEHALF OF THE INDIANA
OFFICE OF UTILITY CONSUMER COUNSELOR**

SETTLEMENT TESTIMONY OF EDWARD R. KAUFMAN
CAUSE NO. 43203
BROWN COUNTY WATER UTILITY, INC.

I. Introduction

1 **Q:** Please state your name and business address.

2 **A:** My name is Edward R. Kaufman and my business address is Indiana Government
3 Center North, 100 North Senate Avenue, Room N501, Indianapolis, IN 46204-
4 2215.

5 **Q:** By whom are you employed and in what capacity?

6 **A:** I am a Senior Utility Analyst in the Water/Wastewater Division employed by the
7 Indiana Office of Utility Consumer Counselor (OUCC).

8 **Q:** Are you the same Edward Kaufman who provided direct testimony in this
9 cause?

10 **A:** Yes.

11 **Q:** What is the purpose of your testimony in this proceeding?

12 **A:** My testimony supports the settlement reached in this cause.

13 **Q:** What is the major provision of the settlement that you discuss in this
14 testimony?

15 **A:** In testimony the OUCC filed on June 7, 2007, the OUCC proposed that
16 Petitioner's rates be increased in three increments. One of the major provisions in
17 my original testimony was that Petitioner would not be authorized to include in
18 rates the funds required to repay its SRF loan until it demonstrated that it would
19 actually be making debt service payments to the SRF. Therefore, my original

1 testimony excluded the debt service on the SRF loan until Petitioner demonstrated
2 a need for funds to repay its SRF loan. At that point, Petitioner's rates would
3 increase to cover Petitioner's debt service obligation on the SRF loan. My
4 original testimony referred to that increase as the second increment in Petitioner's
5 three-step (increment) rate increase.

6 After prefiling my original testimony on June 7, 2007, Petitioner provided both
7 the SRF and the OUCC with reasonable assurances that Petitioner will, in fact, be
8 drawing down funds from its SRF loan and be required to make principal and
9 interest payments to the SRF during the next 6 to 12 months. Based on that
10 additional information and Petitioner's assurances, the OUCC has agreed not to
11 exclude Petitioner's annual debt service on the SRF loan in the initial increment
12 of Petitioner's proposed rate increase. Therefore, the first and second incremental
13 rate increases from the OUCC's June 7, 2007 testimony will be combined, for an
14 initial rate increase of 23.68%, as opposed to the two-step (increment) increase
15 originally proposed.

16 With that change, the OUCC now supports a 2-phase (increment) rate increase, as
17 agreed upon in settlement (as opposed to the 3-step increase originally proposed).

18 Under the Settlement Agreement, the first step will be to increase current rates by
19 23.68%. The second increment of the rate increase will cover additional revenue
20 required for debt service and debt service reserve on Petitioner's new, proposed
21 Rural Development (RD) loan and associated expenses as discussed by OUCC
22 witness Hal Riceman.

II. Resolution of Current SRF Loan

Q: How did the Petitioner resolve the OUCC's concerns regarding its 2002 SRF loan?

A: Petitioner met with representatives from the SRF and provided them with sufficient evidence that Brown County will draw funds from its SRF loan in the very near future. Once Brown County draws sufficient funds from its SRF debt, it will incur semi-annual interest and annual principal payments on that loan. The cost of its SRF debt should be included in rates once those costs are incurred. The settlement includes in the first increment of this case \$270,615 for annual debt service on the SRF loan.

Q: Will the payments that Petitioner is required to make to the SRF be less than the amount shown in its amortization schedule?

A: Yes, Petitioner's amortization schedule assumes that Petitioner will incur interest expense on a balance of \$2.5 million. Until Petitioner draws all of its remaining SRF debt, it will not incur that level of interest expense. As part of the settlement, Petitioner has agreed that, to the extent its actual expense (amount paid to the SRF) is less than \$270,615, any excess funds will be placed in its existing debt service reserve account. Page 44 of Petitioner's accounting exhibit, shows that its debt service reserve account has a current balance of \$712,000. Petitioner will need to accumulate an additional \$345,303 to fully fund its debt service reserve account (\$34,530 per year for 10 years) to meet the new debt service reserve requirements on its Rural Development loan. Any funds added to its debt service reserve account will reduce the amount Petitioner needs to accumulate for its

1 future debt service reserve and subsequent annual debt service reserve payments,
2 to be covered in the 2nd increment of the current proposed rate increase.

3 **Q: What other provisions has Petitioner agreed to that lead you to believe this**
4 **settlement is reasonable?**

5 A: First, Petitioner will provide in its settlement testimony the same documentation it
6 provided to the SRF to demonstrate it will spend funds from its SRF loan in the
7 near future. These documents show when and how Petitioner anticipates it will
8 spend the funds available to it from the SRF.

9 Secondly, until its SRF loan is fully spent, Petitioner will provide the OUCC with
10 a report each quarter, that shows the amount of funds drawn from its SRF loan
11 during each of the last 3 months, the total outstanding principal balance, any
12 construction costs paid for SRF-funded projects during each of the last 3 months,
13 and the amount Petitioner paid to the SRF in principal and interest payments on
14 its SRF loan. This report will provide assurance to the OUCC that Petitioner is
15 following through on its current plan to draw funds on its current SRF debt.

16 Next, if Petitioner does not follow through on its proposed plan and the SRF
17 cancels Brown County's SRF debt, Petitioner will notify the OUCC and IURC
18 within seven days and Petitioner will promptly file a revised tariff and rate
19 schedule, reducing its total annual revenue by \$270,615 without any further
20 hearing (unless otherwise agreed by the parties). This provision assures the
21 OUCC that Petitioner will not be able to collect funds for an expense that it is not
22 incurring.

1 The provisions discussed above require Petitioner to provide reasonable proof that
2 it will incur expenses for its SRF debt, and protects rate payers from having to pay
3 for debt service in rates when the Petitioner is not required to make any debt
4 payments. With those consumer protections and safeguards, the proposed
5 Settlement Agreement is in the Public interest.

6 **III. Summary**

7 **Q: Please review the conditions that Petitioner has agreed to in return for being**
8 **able to include the annual debt service on its SRF debt in rates?**

9 **A:** In short, here are the provisions Petitioner has agreed to as part of the settlement.

- 10 1. Petitioner will provide in its settlement testimony the same documentation
11 it provided to the SRF to demonstrate it will spend funds from its SRF
12 loan in the near future.
- 13 2. Until its SRF loan is fully spent, Petitioner will provide the OUCC with
14 quarterly reports showing the amount of funds drawn from Petitioner's
15 SRF loan, the cost of construction on SRF projects, and the amount paid to
16 the SRF in annual principal and interest on its SRF debt.
- 17 3. Any funds collected through rates for annual debt service on its SRF debt
18 that are not paid to the SRF will be put into a segregated account. Any
19 funds from this account will be deposited into Petitioner's debt service
20 reserve account and be used to reduce the \$345,303 "debt service reserve
21 to be funded" in rates for the RD increment in this cause.
- 22 4. If Petitioner does not follow through on its proposed plan and the SRF
23 cancels Brown County's SRF debt, Petitioner will notify the OUCC and
24 IURC within seven days and file a revised tariff and rate schedule,
25 reducing its total annual revenue by \$270,615 without any further hearing
26 (unless otherwise agreed by the parties).

27 **Q: Does this conclude your testimony?**

28 **A:** Yes.